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Mr. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
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DOCKET: 00-008783
IN RE: RULEMAKING AMENDMENTS OF REGULATIONS FOR
TELEPHONE SERVICE PROVIDERS

Dear Mr. Waddell:

In response to your notice dated August 16, 2001, the Telecommunications Division of the Electric Power Board of Chattanooga wishes to comment on Subsections (1) and (3) of proposed Rule 1220-4-2-.05 relative to customer's security deposits.

Subsection (1) appears to allow for a security deposit of double the amount of that customer's charges. The last sentence states:

The maximum amount for a security deposit shall not exceed two (2) times the average monthly charge for local service for customers receiving similar service.

This rule, however, could be interpreted to limit the security deposit to double the amount charged for only basic service no matter how many lines or what additional features are being furnished to the customer.

Local service is defined in 1220-4-2-.01(11):

"Local Service" means basic local exchange telephone service as defined in Tenn. Code Ann. § 65-5-208(a)(1).

The statutory reference provides in relevant part:

"Basic local exchange telephone services" are telecommunications services which are comprised of an access line, dial tone, touch-tone, and usage provided to the premises for the provision of two-way switch voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-up

Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995 or other services required by state or federal statutes.

The ambiguity in the proposed Rule could be resolved by deleting "for local service" in the last sentence of Subsection (1) so that the sentence would read:

The maximum amount for a security deposit shall not exceed two (2) times the average monthly charge for customers receiving similar service.

The Telecommunications Division of the Electric Power Board of Chattanooga would also like to comment on a proposed minimum interest rate for security deposits set at six percent by the proposed Rule in Subsection (3). Surely the six percent rate comes from an era when rates being paid by banks were much higher in that it bears no relationship to what can be earned by aggregating and pooling such security deposits today. The taking of security deposits is a reasonable precaution giving some protection to the service provider against defaults by new or unknown customers. The cost of administering the security deposits together with the high interest set by this proposed Rule unfairly penalizes the service provider for requesting security deposits.

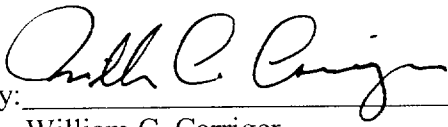
In fairness to the service providers, the rate should reflect the customer's loss of earnings on those funds instead of awarding a windfall to the customer. We would suggest the following:

- (3) Deposits shall accrue at a simple interest rate of three percent (3%) per annum or the interest rate actually earned by said deposit, whichever is greater.

This proposed revision gives the customer a higher interest rate than he or she could earn at any financial institution while the service provider even with this change is still facing losses, expenses and administrative burdens every time it requests a security deposit.

Respectfully submitted,

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